



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Report of the auditor-general to the North West Provincial Legislature and the council on the Mahikeng Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Mahikeng Local Municipality set out on pages xx to xx, which comprise of statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Mahikeng Local Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2016 (Act No. 3 of 2016) (DoRA).

Basis for qualified opinion

Receivables from exchange transactions

3. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions as the municipality did not have an adequate system of internal control and did not keep adequate records. I was unable to confirm these receivables by alternative means. Consequently, I was unable to determine whether any adjustment to receivables from exchange transactions of R7 400 895 (2016: R38 820 551) as disclosed in the statement of financial position was necessary.

Property, plant and equipment

4. I was unable to obtain sufficient appropriate audit evidence that all roads were accounted for as the municipality did not have adequate systems to record the roads network. I was unable to confirm the assets by alternative means. Consequently, I was unable to determine whether any adjustment to the roads network assets of R635 968 447 (2016: R609 212 380) included in property, plant and equipment as disclosed in note 4 to the financial statements was necessary.



Payables from exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence for trade payables due to the status of the accounting records and an unreconciled difference between the payables listing and the financial statements. I was unable to confirm these payables by alternative means. Consequently, I was unable to determine whether any adjustment to trade payables of R295 657 798 (2016: R274 065 869) included in payables from exchange transactions as disclosed in note 16 to the financial statements was necessary.

Value-added tax payable

6. I was unable to obtain sufficient appropriate audit evidence for the value-added tax (VAT) payable due to unreconciled difference between the VAT returns and the general ledger. I was unable to confirm this VAT payable by alternative means. Consequently, I was unable to determine whether any adjustment to the VAT payable of R22 850 680 as disclosed in note 17 to the financial statements was necessary.

Accumulated surplus

7. I was unable to obtain sufficient appropriate audit evidence for adjustments to the accumulated surplus for the current year due to the lack of proper substantiating accounting records. I was unable to confirm these adjustments by alternative means. Consequently, I was unable to determine whether any adjustments relating to accumulated surplus of R814 564 279 in the financial statements was necessary.

Service charges

8. The municipality did not account for all revenue from water sales and refuse removal in accordance with GRAP 9, *Revenue from exchange transactions* as the municipality did not maintain adequate records of the services rendered. I was unable to determine the full extent of the misstatement of revenue from the sale of water of R107 300 790 (2016: R98 470 402) and refuse removal of R31 813 096 included in services charges disclosed in note 20 to the financial statements, the related consumer debtors disclosed in note 10 to the financial statements or the resultant impact on the deficit for the period and the accumulated surplus as it was impracticable to do so.

Interest received (trading)

9. I was unable to obtain sufficient appropriate audit evidence for interest on arrear debtors due to unreconciled difference between the sub-ledger and the financial statements. I was unable to confirm the interest on arrear debtors by alternative means. Consequently, I was unable to determine whether any adjustments to revenue for interest received (trading) of R73 157 225 in the statement of financial performance and the related consumer debtors disclosed in note 10 to the financial statements were necessary.

Expenditure

10. The municipality did correctly record expenditure as required by GRAP 1, *Presentation of financial statements* as the municipality not have adequate systems to record expenditure for goods and services. Consequently, payables from exchange transactions was understated by R17 804 683, general expenses was understated by R8 600 085, contracted services was understated by R12 124 618, repairs and maintenance was overstated by R9 343 062, property, plant and equipment was understated by R6 906 009, lease rentals on operating leases was overstated by R3 062 136 and the VAT payable was understated by R2 579 169. Additionally, there was a resultant impact on the deficit for the period and the accumulated surplus.

Irregular expenditure

11. Section 125 of the MFMA requires the disclosure of irregular expenditure incurred. The municipality made payments of R65 762 311 (2016: R34 630 851) in contravention with the supply chain management (SCM) requirements that were not included in irregular expenditure disclosed. In addition, I was unable to obtain sufficient appropriate audit evidence to confirm that awards of R2 656 298 were made in terms of the SCM requirements. The municipality's records did not permit the application of alternative procedures. As the municipality did not quantify the full extent of the irregular expenditure, it was impracticable to determine the resultant understatement of irregular expenditure disclosed in note 45 to the financial statements.

Context for the opinion

12. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
13. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
14. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty relating to going concern

15. I draw attention to the matter below. My opinion is not modified in respect of this matter.
16. Note 41 to the financial statements indicates that the municipality experienced difficulties in settling its current liabilities. These conditions, along with other matters as set forth in note 41, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

Emphasis of matters

17. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unauthorised and fruitless and wasteful expenditure

18. As disclosed in note 43 to the financial statements, unauthorised expenditure of R198 546 512 was incurred in the year under review and the unauthorised expenditure of R577 214 249 in respect of previous years had not yet been dealt with in accordance with section 32 of the MFMA.
19. As disclosed in note 44 to the financial statements, fruitless and wasteful expenditure of R1 532 586 was incurred in the year under review and fruitless and wasteful expenditure of R7 532 204 from previous years had not yet been dealt with in accordance with section 32 of the MFMA.

Material losses

20. As disclosed in note 46 to the financial statements, the municipality incurred material water losses of R16 512 209 (2016: R14 184 114).

Restatement of corresponding figures

21. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2017.

Other matters

22. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes

23. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

Unaudited supplementary schedules

24. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

25. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA standards of GRAP and the requirements of the MFMA and the DoRA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
26. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless there is an intention either to liquidate the municipality or to cease operations, or there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

27. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of financial statements.
28. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

29. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on



the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

30. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
31. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following objectives presented in the annual performance report of the municipality for the year ended 30 June 2017:

Objectives	Pages in the annual performance report
KPA: basic services and infrastructure development	x – x
KPA: good governance and public participation and ward committee system	x – x

32. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
33. The material findings in respect of the usefulness and reliability of the selected objectives are as follows:

KPA: basic services and infrastructure development

Various indicators

34. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of the indicators listed below. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements.

Performance indicator	Reported achievement
Indicator 94 – number of mega litres of waste discharged provided that meets waste discharge standard provided per day	50ML
Indicator 104 – kilometres of storm water drainage system maintained	13,88km
Indicator 106 – kilometres of road patched and resealed	27,45km
Indicator 108 – number of street lights maintained (7500 light total)	518
Indicator 109 – number of high mast lights maintained (626 light total)	314
Indicator 119 – percentage of the identified damaged road signs repaired/replaced	100%

Indicator 127 – percentage of vehicles tested per month	98%
Indicator 133 – percentage of other emergency fire incidents attended per month	94%
Indicator 143 – number of illegal dumping spots cleaned	75

KPA: good governance and public participation and ward committee system

Various indicators

35. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of the indicators listed below. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements.

Indicator	Reported achievement
Indicator 26 – number of councillor training programmes facilitated	3
Indicator 27 – number of training programmes facilitated for the ward committee members	3
Indicator 29 – number of community participation policy work shopped to council	1
Indicator 38 – percentage of turnaround time on legal opinions issued within a minimum of two days and of seven days	100%
Indicator 41 – percentage of contract drafted and advice given as per request	100%
Indicator 42 – percentage of updated contract management register	100%

Other matters

36. I draw attention to the matters below.

Achievement of planned targets

37. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 34 to 35 of this report.

Adjustment of material misstatements

38. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA: basic services and infrastructure development and KPA: good governance and public participation and ward committee system. As management subsequently corrected only some of the misstatements, I raised material findings on the reliability of the reported performance information. Those that were not corrected are reported above.

Introduction and scope

39. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
40. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

Strategic planning and performance management

41. A performance management system was not adopted as required by section 38(a) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) and regulation 8 of the Municipal planning and performance management regulations.

Financial statements

42. The financial statements submitted for auditing were not prepared, in all material respects, in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

43. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(a) and (c). Similar non-compliance was also reported in the previous year.
44. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Similar non-compliance was also reported in the previous year.
45. Awards were made to providers who were in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44.
46. Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
47. The preference point system was not applied procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act.

Human resource management

48. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.

Expenditure management

49. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
50. An adequate management, accounting and information system was not in place, which recognised expenditure when it was incurred or accounted for creditors or accounted for payments made, as required by section 65(2)(b) of the MFMA.

51. Effective steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the irregular expenditure was caused by lack of declarations of interest, not obtaining three quotation and inadequate document management.
52. Effective steps were not taken to prevent fruitless and wasteful expenditure of R1 532 586, as disclosed in note 44 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties on late payments.

Revenue management

53. An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.
54. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
55. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Asset management

56. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
57. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Liability management

58. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.
59. An effective system of internal control for liabilities was not in place, as required by section 63(2)(c) of the MFMA.

Consequence management

60. Some of the irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
61. Some of the fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Budget

62. Reasonable steps were not taken to prevent unauthorised expenditure of R198 546 512 , as disclosed in note 43 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused overspending of the budget due to inadequate budget processes.

Other information

63. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report thereon and those selected objectives presented in the annual performance report that have been specifically reported on in the auditor's report.



64. My opinion and findings do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
65. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
66. I did not receive the other information prior to the date of the auditor's report. When I do receive this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to re-issue my auditor's report amended as appropriate.

Internal control deficiencies

67. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
- The leadership did not adequately oversee financial and performance reporting, compliance with legislation and related internal controls. This led to material misstatements and control deficiencies being identified in financial and performance reports. Policies and procedures did not adequately guide financial and performance reporting activities and did not adequately address the shortcomings in the internal controls that resulted in the above findings being raised.
 - The accounting officer did not ensure that adequate monitoring controls were implemented to ensure that reliable financial and performance reports were collated throughout the year as part of his periodic reporting responsibilities. Regular, accurate and complete financial reports that are supported and evidenced by reliable information were not properly prepared. Furthermore, management did not adequately review and monitor compliance with applicable legislation. The municipality did not have the requisite skills and capacity required to implement the policies and procedures. Furthermore, there is no information technology department.
 - Management did not adequately monitor the risks identified during the risk assessment process relating to financial and performance reporting and compliance with legislation, resulting in weaknesses in the internal control environment. The internal audit unit did not perform audits to cover all the operations and significant risks of the municipality, resulting in weaknesses in internal control environment. The audit committee did not effectively monitor action plans to address the previous year's audit findings.

Other reports

68. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
69. An investigation undertaken by the Hawks was prompted by the previous municipal manager on the alleged irregular sale of property to an external party without following the correct disposal processes. The investigation was still in progress at the reporting date.



Auditor General
Rustenburg

30 November 2017



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality to cease to continue as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.